

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on March 7, 2003 in Room 519-S of the Capitol.

All members were present except:

Rep. Vaughn Flora  
Rep. Tom Sawyer  
Rep. Scott Schwab  
Rep. Bonnie Sharp

Committee staff present:

Chris Courtwright, Legislative Research Dept.  
April Holman, Legislative Research Dept.  
Gordon Self, Office of the Revisor of Statutes  
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Ron Hein, Kansas Restaurant and Hospitality Assn  
Mark Beshears, Kansas Chamber of Commerce and Industry/Spring  
Martha Neu Smith, Kansas Manufactured Housing  
Tim Etzel, President of JETZ Service Co. Inc.  
TC Anderson, Executive Director, Kansas Society of Certified Public Accountants  
Terry Kimes, CPA with Mize-Houser  
Neal Sharma, Chief Executive Officer of Digital Evolution Group

Others attending:

See attached list

Chairman Edmonds opened the meeting with acceptance of bill introductions. Ron Hein addressed the committee requesting the introduction of a bill on behalf of Kansas Cooperative, an adhoc coalition for some cooperative housing projects for the State of Kansas. HUD is making some changes in that program and is attempting to get people to go out and get private financing rather than HUB subsidized financing and having the government involved in the subsidization of the financing. In order for these entities to retain their property tax exemption, changes will have to be made in the statutes. They are requesting a bill that would allow these changes to be made

With no objection, Chairman Edmonds accepted that bill for introduction.

Representative Huntington requested the introduction of a bill for periodic tax review.

Hearing no objections, Chairman Edmonds accepted that for introduction.

The Chairman asked for a motion to adopt the minutes of the meetings from 2/14, 2/19, 2/20, 2/21, and 2/25. Representative Larkin made a motion to accept the minutes as read. Representative Owens seconded the motion. Motion passed. Minutes adopted.

With no further bill introductions, the Chairman opened the floor for hearings on **HB 2323**.

First to appear before the committee in opposition to **HB 2323** was Ron Hein of the Kansas Restaurant and Hospitality Association. It is their feeling that elimination of this sales tax exemption for food provided free of charge to employees would create numerous interpretation questions and cause a tremendous administrative burden on restaurants. (Attachment 1)

Next to testify in opposition to **HB 2323** was Mark Beshears, Assistant Vice President of State and Local Tax for Sprint Corporation and Director of the Kansas Chamber of Commerce and Industry. He stated that removal of the exemption would send a negative signal to businesses. (Attachment 2)

Martha Neu Smith, Executive Director of Kansas Manufactured Housing Association, testified in opposition

CONTINUATION SHEET

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to **HB 2323**. In her testimony she stated that without the exemption, manufactured housing would pay sales tax on it's rental agreement while all other forms of rental agreements for housing would be tax exempt. (Attachment 3)

Testifying on behalf of the JETZ Service Company, Inc. Was Timothy N. Etzel, President stating that they install, service, maintain, and collect coin receipts from washers and dryers that are primarily placed in apartment communities. The tax on coin-operated laundry receipts affect primarily the low income, the poor, the students and the elderly. (Attachment 4) Mr. Etzel also included various letters to the Governor as well as from other groups in his testimony. (Attachment 5)

Robert Meuschke, President of the Missouri-Kansas Coin Laundry Association. Mr. Meuschke states that if th exemption is removed it will apply a tax to an already heavily taxed business, it will affect the owners as well as the citizens of Kansas. (Attachment 6)

With no further conferees on **HB 2323**, Chairman Edmonds closed the hearing on the bill and opened the hearing on **HB 2322**.

T.C. Anderson, Executive Director of the Kansas Society of Certified Public Accountants as a proponent to **HB 2322** asking that the legislature consider restoration of the sales tax exemption for custom software design. (Attachment 7) Also included with his testimony, was a copy of a magazine article entitled *Tax Collectors Eye Custom Software* (Attachment 8) as well as a Sales Taxation of Services - 1996 Update. (Attachment 9)

Appearing also as a proponent of **HB 2322** was Terry Kimes, CPA, CITP, President of Mize-Houser & Company. He stated that he believes that the services for developing custom code are professional services and therefore the taxing of these services should be repealed and added to the review of taxing other professional services. Taxing these services is harmful to small and medium size businesses in Kansas. (Attachment 10) Also included with his testimony was a **NOTICE** regarding Kansas Retailers' Sales Tax with a brief description. (Attachment 11)

Assistant Vice-President of State and Local Tax for Sprint, Mark Breshears, whose testimony as a proponent for **HB 2322** indicated that the removal of the exemption in 2002 is expected to cost Sprint's long distance division approximately \$18 million. (Attachment 12)

CEO of Digital Evolution, Neal Sharma, testified favor of **HB 2322** because a sales tax on technology professional services unfairly and arbitrarily targets a single industry, puts firms like theirs at a competitive disadvantage versus those in Missouri and other states, stunts a young and burgeoning segment of our economy and shifts the tax burden to smaller companies who need custom software development in order to compete in today's economy. (Attachment 13)

Submitted in opposition to **HB 2322** was written testimony from ARC (Affordable Residential Communities) (Attachment 14); C.D. Chance, manager of Chisholm Creek MHC (Attachment 15); and Coin Laundry Association (Attachment 16)

With no other person wishing to address the bill, Chairman Edmonds closed the hearing on **HB 2322**.

There was no further business before the committee and the meeting adjourned at 10:20 a.m.